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Investments and Investors

Record Cigarette Sales Make Shares Attractive

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When that shrewd commentator Mark Twain remarked that "giving up smoking is easy; I've done it a thousand times," he coined a dictum that at least explain why tobacco stocks have been holding up better than the market as a whole.

Indications of a link between cancer and smoking have driven some hypochondriac and tough-willed types to forswear the weeds forever. A high quotient of backsliders among them, however, and children of the light who prefer to swagger unafraid through life are puffing away at a great rate.

It now looks as if the cigarette makers are headed for a sales record for the fourth consecutive year. Domestic consumption in 1960 probably will hit something like 474,000,000,000 units, for a gain of almost 5 per cent over 1959. Not only are more Americans smoking than ever before, but average consumption is a lot higher, too. Whatever the laboratory validity of the smoking-cancer thesis, the cigarette makers seem to have pulled off at least a public relations victory on the subject.

Two Good Breaks

First it was an editorial in "The Journal of the American Medical Association" to the effect that there was not enough evidence to damn tobacco as a primary factor in lung cancer. Then a Federal judge in Pittsburgh directed a jury to return a not-guilty verdict in favor of Liggett & Myers, defendant in a suit brought by a smoker who charged that Chesterfields had given him cancer.

More recently there has been a report on a possible link between heart disease and smoking, but it seems to have stirred up relatively little public reaction, and the tobacco industry interprets this as a sign that the health issue has been nailed to the barn door.

If weightier documentation on the causality between smoking and cancer materializes, then all bets are likely to be off, but if the status remains quo, consumption is going to keep right on rising at a faster rate than the population as a whole.

It will do so because the fifteen - to - twenty - four age bracket, the period in which most smokers take to nicotine, is expanding faster than the population as a whole. Throw in the fact that more and more women take to smoking every year, superimpose on it generally higher per capita consumption, and you have a sales equation that the cigarette makers consider quite rosy.

Ad Costs Soar

Sales don't mean a thing, of course, unless they get converted into earnings, and this is one of the reasons why the cigarette makers, always out to expand profit margins, are relieved that the cancer scare seems to be abating. Advertising is one of the industry's biggest costs and, partly because of the cancer scare, promotion expenses have shot to a whopping 8 cents a carton or so, double the 1955 average. If the cancer issue is indeed receding, the industry may be able to cut back on advertising expenditures somewhat—it may, that is, if competitive pressure permit.

In their eternal jockeying for market headroom, most of the cigarette makers have come out with a variety of new brand names. Start-up costs on that kind of gambit always run high, and this has put a crimp in some profit margins.

Other producers, however, notably Reynolds and Philip Morris, have managed to broaden their profit ratios and with bigger volume earnings in the industry have gone up anyway. This has made for a number of dividend increases and given added flavor to the traditional concept of the tobaccos as premier "defensive" issues.

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